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Testimony on:
Fiscal Year 2003 Budget Proposal for
U.S. Small Business Administration

Presented to:
COMMITTEE ON SMALL BUSINESS & ENTREPRENEURSHIP
UNITED STATES SENATE

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1. Introduction

Mr. Chairman and members of the U.S. Senate Committee on Small Business and Entrepreneurship: Thank you very much for this opportunity to testify about the FY 2003 SBA budget proposal. My comments will focus on:

- a. The SBIR and STTR Programs;
- b. The Rural Outreach and FAST Programs; and
- c. The SBA Office of Technology

But first, I convey my deep appreciation to your committee and its members for the support delivered to our nation's small businesses. Your diligent work building and safeguarding the SBIR and STTR Programs is vital to small businesses throughout the country. The recent reauthorization of these two Programs is testimony to this.

The SBIR Program was critical to the success of my small business in the early days of the Program (1983-1986). After leaving the business in 1991, I have worked with many small businesses and organizations across the country providing SBIR competition assistance. My primary SBIR competition assistance work was delivered during my tenure with the Wyoming SBIR Initiative from mid-1996 to mid 2000. Based on the results achieved there, I have strong convictions that high quality assistance can dramatically improve SBIR competition results. I present some highlights from this experience later in my testimony.

2. Safeguarding the SBIR/STTR Programs

The recent rescission of roughly half of the DOD/BMDO FY 2003 SBIR funds (about \$75 million) through the DOD appropriations bill underscores the need for continuing vigilance of the SBIR/STTR Programs. I salute Senators Kerry and Bond for their quick action in sending their 29 January 2002 letter to Secretary Rumsfeld seeking full restoration of the DOD/BMDO SBIR funds. SBA must be prepared to aggressively and effectively defend the SBIR and STTR Programs against these attacks.

SBA must insure that agencies abide by the SBIR/STTR statutes and Policy Directives. A present concern is that the statutory funding limits for SBIR/STTR Phase 1 and 2 (\$100,000 and \$750,000 respectively) are not being followed by all agencies. For example, my analysis of NIH FY 2001 awards data available on its website showed that about 47% of the Phase 1 awards exceeded the \$100,000 ceiling. Similarly, DOD SBIR/STTR solicitations now describe standard Phase 2 procedures with award amounts greater than \$750,000.

There are many other issues that SBA needs to safeguard. Some include: insuring agencies are determining properly their SBIR and STTR budgets (and not "under-calculating" them); defending small business data rights; insuring all SBIR/STTR Policy Directives are followed by all the agencies; achieving statutory requirements for SBIR/STTR award data bases; and more.

The breaches of SBIR/STTR statutory requirements and Policy Directives cited above appear to be growing in magnitude with time. Left unchecked, they are likely to continue growing in the future, and other agencies will be encouraged to follow. If the SBIR/STTR statutes and Policy Directives are appropriate, they should be followed. If they are outdated, they should be changed and then followed. I have strong convictions that the long-term integrity of any program mandates that proper rules be followed. We want the SBIR and STTR Programs to be around a long time.

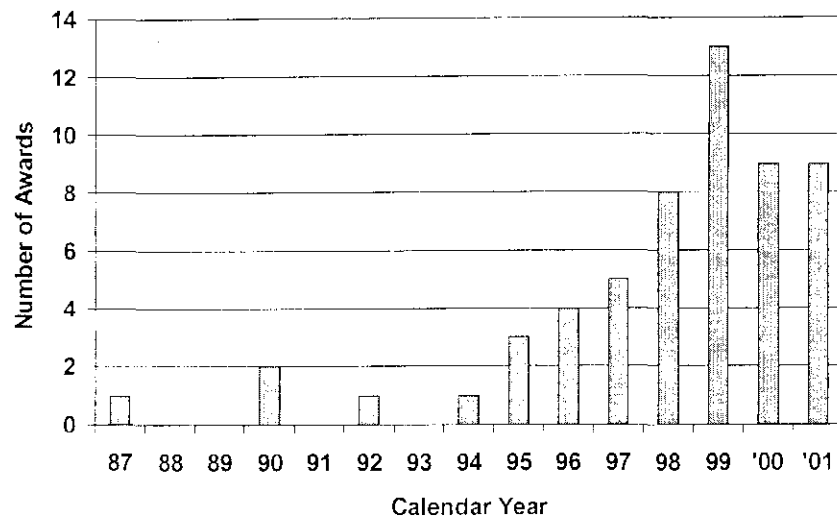
Clearly, there is much work to be done to safeguard the SBIR and STTR Programs. Small businesses depend on the SBA to excel in performing this work, to be their advocate in the SBIR and STTR Programs and competitions.

The statutory requirements and Policy Directives for the SBIR and STTR Programs should be followed. Appropriate changes should be made to these requirements and directives if necessary.

SBA must insure that adequate resources in quantity and quality are deployed for it to properly safeguard the SBIR and STTR Programs. This does not appear to be the case now, as I will point out later in my testimony (Part 6 below).

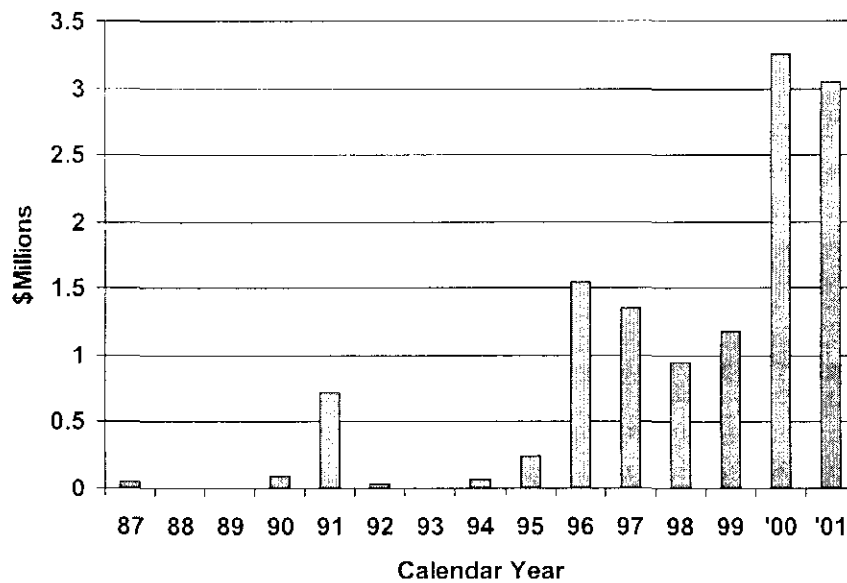
ANNUAL WYOMING SBIR/STTR PHASE 1 AWARDS

Number of Awards



ANNUAL WYOMING SBIR/STTR AWARD DOLLARS

Phase 1 and 2



3. The Rural Outreach and FAST Programs

There is ample evidence that **high quality** outreach and competition assistance can have a significant positive impact on SBIR competition results, especially in under-performing states and regions. I had the privilege of being part of the pioneering Wyoming SBIR Initiative from mid-1996 to mid-2000. The payoff of this initiative are illustrated in the two charts on the following page. The first shows the growth in annual number of Phase 1 SBIR/STTR awards to Wyoming small businesses. The second chart shows the corresponding annual dollar value of Phase 1 and 2 awards to Wyoming small businesses. Clearly, SBIR competition results in Wyoming improved dramatically with the inception of the Wyoming SBIR Initiative.

High quality SBIR outreach and competition assistance works.

SBA now administers two SBIR outreach and competition assistance programs authorized by Congress through the leadership and action of your Committee. These are the Rural Outreach Program (ROP) and the Federal and State Technology (FAST) Partnership Program. ROP and FAST offer the potential to dramatically increase access to SBIR and STTR Program resources for all small businesses, but especially in under-performing regions of the country. Quality is the key.

P.L. 105-135 authorized the Rural Outreach Program (ROP) through FY 2001, and P.L. 106-554 extended the authorization period through FY 2005. The purpose of the program is to provide SBIR outreach assistance to small businesses in states that historically have under-performed in SBIR competition. About 25 states and territories are eligible for participation in the ROP. The program requires a 50% state match of federal ROP funds provided.

The Federal and State Technology (FAST) Partnership Program was created as part of the SBIR Program reauthorization in 2000 (P.L. 106-554). FAST is authorized through FY 2005, the same as the ROP. The purpose of the FAST Program is to provide SBIR and STTR competition assistance to small businesses. All 50 states and some territories are eligible to participate in FAST Program. There are three tiers of state match required (50, 75, and 100%) for federal FAST funds provided depending on the states SBIR competition success history.

Again, I emphasize that **high quality** outreach and competition assistance is critical to beneficial SBIR competition results. Conversely, there is abundant evidence that "low quality" outreach and competition assistance does not contribute to improved SBIR competition. For the ROP and FAST Program to be successful, it is imperative that **high quality** be emphasized in SBA's administration of them. SBA should not allow these two programs to become "entitlement" programs that will inevitably lead to low grade benefits. This requires that SBA make the ROP and FAST awards on a **highly competitive** basis.

Highly competitive selection of ROP and FAST award winners implies that some states will win and others will lose. This is the nature of competition - just like the SBIR and STTR Programs. However, SBA should make information available and provide assistance to states that want and need help to win in the ROP and FAST competitions. For example, "best practices" for conducting outreach and competition assistance programs can be compiled now based on experience gained over the past five or six years. Another example is a "training institute" for state organizations that could be outsourced to and administered by an organization like the State Science and Technology Institute (SSTI). Of course, this will take resources.

In the final analysis, it is up to the states and their small businesses to make the necessary commitment to capture ROP and FAST awards, and to take advantage of available resources to do so.

SBA should give highest priority to executing the ROP and FAST Programs on a highly competitive basis to insure high quality outreach and competition assistance, and subsequent beneficial results.

4. Benefits of the Rural Outreach and FAST Programs

High quality outreach and competition assistance enabled by the ROP and FAST Programs will increase the number of small businesses that engage and win in SBIR/STTR competition throughout the country. Achieving this goal is a win-win scenario manifested in at least two ways:

- a. More highly qualified participants leads to more competitive SBIR/STTR Programs that secures their integrity.
- b. States and regions under-performing in SBIR/STTR competition benefit from the creation and growth of small businesses nurtured by SBIR/STTR awards.

The FAST Program provides all states (and eligible territories) the opportunity to compete for SBIR competition assistance resources that can be applied to areas of need in each state. However, in FAST competition, under-performing states (that are likely to have low level SBIR competition infrastructure) compete against higher-performing states (that are more likely to have nicely honed SBIR competition skills). Hence, some under-performing states whose small businesses most likely have high need for competition assistance do not receive it. The ROP gives the under-performing states a "second chance" to capture outreach resources to begin nurturing SBIR competition infrastructure.

The table below shows the ROP and FAST awards for the first round of competition for each program (FY 1999 and FY 2001 for ROP and FAST, respectively). The data in the table shows the importance of ROP awards to some of the under-performing states that did not receive FAST awards.

An (*) after the state abbreviation indicates an ROP-eligible state or jurisdiction.

State	FY 1999 ROP Award	FY 2001 FAST Award	State	FY 1999 ROP Award	FY 2001 FAST Award
AK*	\$70,000	\$100,000	MT*	70,000	100,000
AL		100,000	NC		125,000
AR*	(see note)		ND*	70,000	
AZ			NE*	40,000	
CA			NH		100,000
CO		100,000	NJ		100,000
CT			NM		
DC*	25,000		NV*	40,000	100,000
DE*	25,000	100,000	NY		125,000
FL			OH		150,000
GA		125,000	OK*	(see note)	150,000
HI	(see note)	125,000	OR		
IA*	70,000	100,000	PA		
ID*	40,000		PR*	25,000	
IL			RI*	25,000	
IN*	70,000		SC*	40,000	100,000
KS			SD*	40,000	
KY*	40,000		TN		
LA*	40,000	150,000	TX		100,000
MA		100,000	UT		
MD		125,000	VA		150,000
ME*	40,000	150,000	VT*	70,000	100,000
MI		100,000	WA		100,000
MN		125,000	WI		100,000
MO*	25,000	100,000	WV*	25,000	
MS*	40,000	125,000	WY*	70,000	125,000
			Totals	\$1,000,000	\$3,450,000

Note that AR, HI and OK received ROP funding in the FY 2001 in the amounts \$40,000, \$80,000 and \$80,000 respectively.

5. Funding for the Rural Outreach and FAST Programs

The authorization for ROP has been set at \$2 million per year since its inception. However, actual ROP appropriations have varied significantly from year-to-year as shown by the numbers below:

FY 1999	\$1,000,000	(first year funds were appropriated)
FY 2000	\$500,000	
FY 2001	\$1,500,000	
FY 2002	\$500,000	
FY 2003	\$500,000	(proposed budget)

This wide variation in year-to-year funding severely handicaps effective investment of the ROP resources both for SBA and state organizations implementing the Programs. Continuing these wide variations puts ROP on a path to certain failure. At the fully authorized level (\$2,000,000 per year), the average amount of funds available per eligible state (25) is only \$80,000 annually. This is a small amount of money to significantly impact SBIR competition, but at least enables a beginning in outreach and competition assistance.

An ROP budget of \$500,000 (actual for FY 2002 and proposed for FY 2003) allows only \$20,000 per state on average. This amount of funding will not yield beneficial returns. With this ROP budget, SBA is encouraged to award fewer larger awards (say 6 awards at \$75,000 each) to the eligible states that are most deserving on a competitive basis.

The FAST Program is authorized at \$10,000,000 annually. Yet the annual appropriations for FAST since the inception of the Program are as follows:

FY 2001	\$3,500,000	(first year funds were appropriated)
FY 2002	\$3,000,000	
FY 2003	\$3,000,000	(proposed budget)

All 50 states and some territories are eligible to compete in the FAST Program. Hence, with only \$3,000,000 available annually, the average annual funding to each eligible entity is less than \$60,000. At the fully authorized amount, the average annual funding would be approximately \$200,000 annually, an amount that would enable a meaningful competition assistance program.

(Note: The "average" amounts per state for ROP and FAST cited above is intended to indicate only an estimate for funds available per state. It is suggested that awards NOT be made based on the averages, but rather on a competitive basis.

The roles for ROP and FAST are complementary but serve different purposes, and both should be continued. Meaningful state outreach and competition assistance programs require that both be funded at the fully authorized amount (ROP, \$2,000,000; FAST, \$10,000,000). Funding ROP and FAST at current levels (ROP, \$500,000; FAST, \$3,000,000) puts at risk the potential benefits of both programs.

Every effort should be made to achieve the fully authorized funding levels in FY 2003 for both ROP and FAST. SBA is encouraged to propose and aggressively defend and fight for the fully authorized amounts for both ROP and FAST in subsequent budgets cycles.

6. SBA and the SBA Technology Office

Technology-based small businesses are key to America's future economy, and many states are initiating programs to nurture these enterprises. The State Science and Technology Institute (SSTI) Weekly Digest (www.ssti.org) regularly reports on individual states activities toward this end.

The SBIR and STTR Programs are widely acclaimed for their excellence and contributions in nurturing these technology-based small businesses throughout the country. The General Accounting Office consistently gives high marks to these programs, and the "findings" included in the recent legislation reauthorizing the SBIR and STTR Programs highlights their achievements.

The combined annual funding through the SBIR and STTR Program budgets is now in the neighborhood of \$1.5 billion, up from roughly \$0.5 billion at the time of the 1992 reauthorization of the SBIR Program, and initial authorization of the STTR Program. The sheer size of the SBIR and STTR Programs make it one of SBA's most important Programs. In addition to this, the technology focus of the SBIR and STTR Programs elevate its importance even more as evidenced by states' interest in technology business development for their future economies.

The focus on commercialization mandated by Congress in 1992 and implemented by the agencies has yielded ever-increasing success stories. These are sure to continue to grow.

SBA has oversight responsibility for the growing SBIR and STTR Programs that are vital to our small business and entrepreneurial communities and future economies. The responsibility for this oversight rests with the SBA Office of Technology.

But the priority and attention that SBA has given to the SBIR and STTR Programs has not kept pace with their growth. In fact there is compelling evidence that SBA's priority for the SBIR and STTR Programs has **decreased** over the last 10 years while the programs have **increased** in size, complexity and importance.

For example, the SBA website reveals that the SBA Office of Technology (responsible for SBIR and STTR Programs oversight) is buried deep within the SBA Headquarters organization. Specifically, the chain of command from the SBA Administrator to the Office of Technology is as follows (based on SBA website information):

- SBA Administrator
- SBA Deputy Administrator
- SBA Chief of Staff
- Associate Deputy Administrator, Gov. Contracting & Business Development
- Deputy Associate Deputy Administrator, Gov. Contracting & Business Dev.
- Associate Administrator, Office of Policy, Planning and Liaison
- Assistant Administrator, Office of Technology***

Given the size and growing importance of the SBIR and STTR Programs to the small business community, our states and nation, the SBA Office of Technology must be placed at a much higher level in the SBA organization. Doing so will enable this Office and the SBIR/STTR Programs to receive needed visibility, priority, authority, attention and resources.

I understand that in the past (when the program was much smaller and less complex), the Technology Office reported directly to the SBA Deputy Director. Further, I understand that the number of full time employees at the SBA Office of Technology has steadily decreased from about 10 at the time of SBIR reauthorization in 1992 to only 4 today.

This diminishing attention to the SBIR/STTR Programs and the SBA Office of Technology over the past ten years while the programs have grown in size, complexity and importance makes little sense. Consider a few of the changes that have occurred over the past 10 years that have added to the work load of the SBA Office of Technology:

- The SBIR Program has more than doubled in size
- The STTR Program was started
- Reporting and database requirements have increased
- Rural Outreach Program initiated
- FAST Program initiated.

Current visibility, priority, authority, attention and resources vested in the Office of Technology is not consistent with the importance of the SBIR and STTR Programs to the small business community, states and the nation. Continuing the present scenario risks the future integrity of the SBIR and STTR Programs and related activities.

It is strongly encouraged that SBA elevate the Technology Office within the organization so that it will receive required visibility, priority, attention and resources.

Also, it is strongly encouraged that SBA carefully assess its Office of Technology resources needed to provide adequate oversight and administration of the SBIR/STTR Programs and related activities. The required resources should be made available, and the SBA Administrator held accountable for them. The integrity of the SBIR and STTR Programs depends on it!!!

If necessary, the GAO should be tasked to study SBA's leadership and management of the SBIR and STTR Programs, and recommend appropriate approaches and changes.

7. Closing Comments

Mr. Chairman and members of the Committee, I thank you for your vigilant work and support on behalf of the small business community, and the SBIR and STTR Programs. Your commitment and work is vital to the small business community. And again I thank you very much for the opportunity to present my testimony today.